

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

March/April 2008



### **Federal Economic Stimulus Act of 2008**

**By Jay Wortley, Senior Economist, and David Zin, Economist**

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The Federal Economic Stimulus Act of 2008 was passed by Congress on February 7, 2008, and signed into law by President Bush on February 13, 2008. The purpose of this Act is to provide a fiscal stimulus to the slumping U.S. economy. Under this Act, the Federal government will inject \$151.7 billion into the economy in fiscal year (FY) 2007-08 and another \$16.3 billion in FY 2008-09, for a total of \$168.0 billion over the two fiscal years, as estimated by the Congressional Joint Committee on Taxation. The major features of this stimulus package are income tax rebates to individuals and a tax reduction for businesses, which the Act achieves by accelerating the depreciation they may claim. Each of these major components of the Federal Economic Stimulus Act of 2008 is described below, and the estimated direct impact of this stimulus on Michigan's State government taxes and other revenue also is presented.

### **Federal Income Tax Rebates to Individuals**

The Federal income tax rebates consist of a basic credit and a child credit. It is estimated that these rebates will be paid to individuals beginning in May 2008. These rebates will inject \$106.7 billion into the U.S. economy in FY 2007-08 and another \$10.0 billion in FY 2008-09, according to the Congressional Joint Committee on Taxation.

**Basic Credit.** Qualifying individuals will receive an income tax credit of at least \$300 and up to \$1,200. Qualifying individuals and their respective credit amounts fall into the following three categories:

1. Single taxpayers who have a net income tax liability of at least \$600 will receive a basic credit of \$600 and joint taxpayers who have a net income tax liability of at least \$1,200 will receive a basic credit of \$1,200; however, the amount of the total credit is phased down at certain income levels, as explained below.
2. Taxpayers who have 1) a net income tax liability of at least \$1 but less than \$600 for single taxpayers and less than \$1,200 for joint taxpayers, and 2) gross income greater than the sum of the applicable basic standard deduction plus one personal exemption for single filers and two personal exemptions for joint filers, will receive a basic credit equal to their income tax liability or \$300 for single taxpayers and \$600 for joint taxpayers, whichever is greater. The minimum income level is \$8,750 for a single taxpayer and \$17,500 for joint filers.
3. Individuals with income of at least \$3,000, which includes earned income, Social Security benefits, and veteran's payments, who do not qualify for a credit under the other two categories, will receive a basic credit of \$300 for single individuals and \$600 for married couples. These individuals do not have to have an income tax liability in order to qualify for this credit.

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**Child Credit.** Individuals who qualify for a basic credit and have a qualifying child, also will qualify for a child credit equal to \$300 per child. A qualifying child must be under 17 years old, must have the same principal residence as the taxpayer for more than half of the tax year, and must be related to the taxpayer.

**Income Limitation on Rebate.** The amount of the rebate (basic credit plus child credit) will be reduced for taxpayers whose income is above a certain level. The rebate for single people will be reduced by an amount equal to 5.0% of the amount by which their adjusted gross income exceeds \$75,000 and the rebate for married couples filing jointly will be reduced by an amount equal to 5.0% of the amount by which their adjusted gross income exceeds \$150,000.

**Rebate Checks and Credit Reconciliation.** The U.S. Department of Treasury will calculate the basic credit and child credits based on the information contained in taxpayers' 2007 Federal income tax returns, which were due April 15, 2008. This amount then will be sent to taxpayers via a check beginning in May 2008. In 2009, when taxpayers complete their 2008 Federal tax return, they will recalculate the credits based on actual data for 2008. If the recalculated credits are greater than the amount of the rebate taxpayers received in 2008, they will be able to claim the difference as an additional refundable credit in 2009. If the recalculated credits are less than the amount of taxpayers' 2008 rebate check, they will *not* be required to repay the difference.

Examples of the rebate amounts that hypothetical taxpayers would receive are presented in Table 1.

**Table 1**

<b>Taxpayer Examples of Tax Rebate under Economic Stimulus Act of 2008</b>						
<b>Type of Filer</b>	<b>Adjusted Gross Income</b>	<b>Income Tax Liability</b>	<b>Number of Children &lt;17</b>	<b>Total Credit/Rebate</b>		
				<b>Basic Credit</b>	<b>Child Credit</b>	<b>Total</b>
Single	\$14,000	\$0	0	\$300	\$0	\$300
Single	50,000	6,700	0	600	0	600
Single	25,000	450	0	450	0	450
Head of Household	35,000	2,500	2	600	600	1,200
Joint	35,000	1,100	2	1,100	600	1,700
Joint	80,000	7,600	3	1,200	900	2,100
Joint	150,000	20,700	2	1,200	600	1,800
Joint	200,000	36,800	2	0	0	0

**Source:** Senate Fiscal Agency

### Federal Income Tax Reduction for Businesses

The Economic Stimulus Act of 2008 also will provide a tax reduction to businesses to help stimulate economic activity. The Act provides this business tax reduction by changing the way new purchases of property are depreciated or expensed. Under current law, businesses are allowed to deduct a certain percentage of the cost of buildings and equipment from their business income. The amount of the deduction and the number of years for which a deduction may be claimed vary depending on the type of property and its cost. The Economic Stimulus Act of



2008 accelerates the depreciation that businesses will claim for new capital purchased and put in service in 2008, by providing a 50.0% depreciation bonus and an increase in the Section 179 capital expenditure deduction (described below).

**50% Bonus Depreciation Deduction.** Businesses that purchase new capital assets in 2008 will be able to claim 50.0% of their cost as depreciation in 2008, plus the amount they otherwise would be able to claim on the remaining 50.0% of the property's value. For example, a business that in 2008 pays \$1,000 for new equipment that is depreciated over five years would have been able to deduct \$200 in depreciation before this law change, but now will be able to deduct \$600 for the 2008 tax year, an increase of \$400. This increase in their depreciation deduction will lower businesses' taxable income and reduce their income tax liability for their 2008 tax year; however, this acceleration in their depreciation deduction in 2008 will reduce the depreciation that will be available for them to claim in future years; thus, the reduction in taxes realized in 2008 will be offset by higher taxes in future years.

**Increase in Section 179 Expensing of Depreciable Assets.** Section 179 of the Internal Revenue Code allows some businesses to forego depreciation and instead deduct or expense all or a portion of the amount spent on newly purchased capital equipment during the tax year, instead of depreciating it over several years. If the total cost of qualifying property exceeds a certain level, this deduction is phased out. Prior to the Economic Stimulus Act of 2008, the maximum amount that a business taxpayer could have deducted under this provision in 2008 was \$128,000, and it would have been reduced by the amount by which the total cost of the qualifying property exceeded \$510,000. Under the Economic Stimulus Act of 2008, this special deduction will increase to \$250,000 in 2008 and it will not be reduced unless the cost of the qualifying property is in excess of \$800,000.

### **Impact on Michigan State Government Revenue**

The Federal Economic Stimulus Act of 2008 will have a direct impact on Michigan's tax revenue in two major ways: 1) The Federal rebates spent by individuals in Michigan will help boost sales tax, casino tax, and lottery revenue, and 2) the acceleration in depreciation that businesses will be able to claim will reduce Michigan business tax revenue. As shown in Table 2, it is estimated that the net fiscal impact on Michigan State government revenue will be a gain of \$32.4 million in FY 2007-08 and a loss of \$94.4 million in FY 2008-09; then, for several years, the State will realize gains in revenue, including increases of \$16.2 million in FY 2009-10 and \$32.7 million in FY 2010-11.

The rebates that will be paid to individuals under the Economic Stimulus Act of 2008 will give individuals in Michigan a boost in their disposable income of an estimated \$3.6 billion, which will increase total disposable income in Michigan by about 1.0% in 2008. This extra cash in the hands of consumers in Michigan will be used in three major ways: 1) They will spend it on goods and services, 2) they will use it to pay down existing consumer debt, or 3) they will save it. It is estimated that about 60.0% of the rebates will be spent in Michigan and of this amount about 60.0% will be spent on taxable items. It is assumed that approximately two-thirds of the amount that taxpayers will spend will be spent before the end of FY 2007-08, and the remaining one-third will be spent in FY 2008-09. In FY 2007-08, this increased spending by consumers in Michigan will generate an estimated \$53.8 million in sales tax revenue, \$10.6 million in lottery

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revenue, and \$4.5 million in casino tax revenue, for a total of \$68.9 million. In FY 2008-09, an additional \$26.0 million in new revenue will be generated primarily from the sales tax.

**Table 2**

Estimated Fiscal Impact of Economic Stimulus Act of 2008 on Michigan State Government Revenue FY 2007-08 to FY 2010-11 (Millions of Dollars)					
Provision	Tax Base Impact 2008 Tax Year	Revenue Impact			
		FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
<b><u>Federal Tax Rebates to Individuals</u></b>					
Rebates to Individuals in MI .....	\$3,629.4				
Increase in Taxable Spending in MI .....	\$1,306.6				
<b><u>Estimated Tax/Revenue Impact:</u></b>					
Sales Tax.....	---	\$53.8	\$24.6	\$0.0	\$0.0
Lottery.....	---	10.6	1.0	0.0	0.0
Casino Tax .....	---	4.5	0.4	0.0	0.0
Subtotal New Revenue from Rebates .....	---	\$68.9	\$26.0	\$0.0	\$0.0
<b><u>Acceleration of Business Depreciation/Expensing</u></b>					
<b>50% Bonus Depreciation:</b>					
Change in Depreciation Deducted by MI Businesses .....	\$4,158.0				
<b><u>Estimated Tax/Revenue Impact:</u></b>					
Michigan Business Tax.....	---	(32.2)	(112.8)	14.4	30.8
Individual Income Tax.....	---	(3.2)	(4.0)	1.0	0.8
50% Bonus Depreciation Revenue Impact.....	---	(\$35.4)	(\$116.8)	\$15.4	\$31.6
<b>Section 179 Expensing Increase:</b>					
Change in Expensing Deducted by Michigan Businesses .....	\$126.0				
Section 179 Expensing Revenue Impact...	---	(1.0)	(3.6)	0.9	1.2
Subtotal Business Depreciation/ Expensing Changes .....	---	(\$36.5)	(\$120.4)	\$16.2	\$32.7
<b>Estimated Net Impact on Michigan Government Revenue .....</b>					
Impact by Fund:					
General Fund/General Purpose .....	---	(\$22.3)	(\$114.2)	\$16.2	\$32.7
School Aid Fund .....	---	\$54.0	\$19.4	\$0.0	\$0.0
Other.....	---	\$0.8	\$0.3	\$0.0	\$0.0

**Source:** Senate Fiscal Agency

The Federal acceleration in the depreciation and expensing deductions for 2008 capital acquisitions initially will have a negative impact on the business income tax portion of the new Michigan business tax. The business income tax is based on business income as defined by the Internal Revenue Code, which includes the Federal deductions for depreciation and Section 179 expensing. Therefore, as the allowable deductions for Federal depreciation and expensing of capital goods increase for the 2008 tax year, the deductions for depreciation and expensing

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under Michigan's business income tax also will increase, which will reduce businesses' 2008 tax liability. It is estimated that the Federal changes in depreciation and Section 179 expensing will reduce Michigan business tax revenue \$36.5 million in FY 2007-08 and \$120.4 million in FY 2008-09. The acceleration in the amount of depreciation that businesses will be able to claim in the 2008 tax year will reduce the amount of depreciation that will be available for them to claim beginning in the 2009 tax year. As a result, it is estimated that these Federal business tax changes will boost Michigan business tax revenue \$16.2 million in FY 2009-10 and \$32.7 million in FY 2010-11.

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### **Comparison of Projected Transportation Revenue and Expenditures** **By Debra Hollon, Fiscal Analyst**

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#### **Introduction**

The winter of 2007-08 produced an overabundance of potholes around Michigan and surrounding states. Drivers are spending more and more at the pump for a gallon of gas while the roads crumble in front of them. Frustration levels are increasing and may not be relieved in the foreseeable future. The purpose of this article is not to advocate for either side in the discussion of a fuel tax increase, but to present information concerning the history and possible future of transportation revenue and costs.

#### **Revenue**

Over 95.0% of the revenue in the Michigan Transportation Fund (MTF) comes from motor fuel and vehicle registration taxes. The current Michigan motor fuel tax rates are 19 cents per gallon for gasoline and 15 cents per gallon for diesel fuel. (Comparison information concerning the fuel tax rates of other states can be found on the Senate Fiscal Agency website.) Vehicle registration taxes are based upon the value of the vehicle.

The motor fuel tax rate is a fixed amount per gallon, unlike the sales tax, which is a percentage of the dollar amount sold. As a result, an increase in the price per gallon of fuel does not increase revenue to the MTF. In fact, as the per gallon price rises, consumer usage tends to decrease, which results in a decrease in State revenue from this source. One example of this effect can be seen from the surge in fuel prices after Hurricanes Katrina and Rita in 2005. Motor fuel tax revenue to the MTF dropped by over \$20.0 million from fiscal year (FY) 2004-05 to FY 2005-06. Since that time, revenue from fuel taxes has continued to decline as the price of fuel has increased. The FY 2007-08 estimated revenue is another \$40.0 million below the FY 2004-05 level.

Revenue from vehicle registrations has increased over the same time frame. This increase offsets the decrease in fuel tax revenue and results in relatively flat overall revenue to the Fund. Growth in MTF revenue over the past 10 years has been only 4.7%. Table 1 reflects revenue to the MTF over the past 10 years.

#### **Expenditures**

The revenue received by the MTF is distributed among its various purposes primarily according to statutory formulae. After certain administrative and statutory deductions, 10.0% is transferred into the Comprehensive Transportation Fund to be used for transit purposes (bus, rail, ferry, etc). By statute, the next \$40,275,000 is transferred into the Transportation Economic Development Fund for use in road projects related to economic development projects. After some smaller deductions, the balance is divided among the State Trunkline Fund (for Michigan Department of Transportation road projects on interstates and major highways), county road commissions, and cities and villages.





**Table 1**

<b>Michigan Transportation Fund: Revenue History</b>					
<b>Fiscal Year</b>	<b>Gasoline Tax Revenue</b>	<b>Vehicle Registration Revenue</b>	<b>Other Fuel Tax Revenue</b>	<b>Other Revenue</b>	<b>Total</b>
1998-99	\$931,031,120	\$758,527,135	\$135,364,353	\$19,906,672	\$1,844,829,280
1999-2000	921,991,065	802,945,158	144,521,335	23,112,879	1,892,570,437
2000-01	933,494,040	824,746,037	134,165,367	21,134,771	1,913,540,215
2001-02	938,911,784	877,074,423	143,868,807	14,379,470	1,974,234,484
2002-03	935,671,741	892,659,425	157,513,685	14,561,361	2,000,406,212
2003-04	932,139,677	978,527,057	141,139,542	12,776,784	2,064,583,060
2004-05	922,368,211	895,996,513	146,799,386	11,634,283	1,976,798,393
2005-06	906,220,722	898,798,415	149,171,067	13,729,483	1,967,919,687
2006-07	883,687,513	907,808,952	144,174,316	7,764,849	1,943,435,630
2007-08 Est.	867,000,000	911,550,000	146,950,000	6,100,000	1,931,600,000

**Notes:** The last gas tax increase (4 cents) was passed in 1997. In 2003, legislation changed trailer registrations from annual to one-time (PA 152), creating a spike in revenue from registrations in that year. In 2006, legislation reduced the ethanol and biodiesel fuel tax rates by 7 cents (PA 268). The act required a transfer from the General Fund to the MTF to replace lost revenue, but that transfer has not taken place.

**Source:** House Fiscal Agency

While revenue for the MTF has remained relatively flat over the past 10 years, the costs of construction have increased dramatically over the same time frame. According to the U.S. Department of Labor, Bureau of Labor Statistics' Producer Price Index, overall prices for highway and street construction increased by 58.1% from 1998 through 2007. Three major contributors to this increase are the prices for iron and steel, cement, and asphalt paving mixtures. From 2002 through 2007, prices increased 76.2% for iron and steel and 36.9% for cement. The Bureau of Labor Statistics did not begin tracking asphalt paving mixture prices until December 2003. From that point until December 2007, the prices for this category increased 51.1%. It should be noted that asphalt prices are directly related to oil prices.

In addition to the rise in the prices of construction components, debt service expenditures have increased as bonds have been issued to finance reconstruction and capacity-building projects as well as to accelerate other projects in an effort to stimulate the economy by creating more construction jobs. For example, \$308.2 million in bonds were issued in 2001 for the Build Michigan III Program for capacity-building and reconstruction projects. In 2007, \$630.0 million in bonds were issued for the Jobs Today Program to accelerate over 150 projects in order to create jobs in the construction area. Table 2 below outlines appropriations (both operations and debt service) from FY 1998-99 through FY 2007-08 year-to-date and lists the major bond issuances for that period.



**Table 2**

<b>Michigan Department of Transportation: State Funds Appropriations History</b>			
<b>Fiscal Year</b>	<b>Operations</b>	<b>Debt Service</b>	<b>Total</b>
1998-99	\$1,870,991,900	\$84,684,700	\$1,955,676,600
1999-2000	\$1,925,390,600	69,034,100	1,994,424,700
2000-01	\$2,044,916,500	69,514,100	2,114,430,600
2001-02	\$2,010,125,300	111,616,800	2,121,742,100
2002-03	\$2,008,023,200	111,632,100	2,119,655,300
2003-04	\$2,052,201,300	108,062,300	2,160,263,600
2004-05	\$2,011,937,800	123,750,100	2,135,687,900
2005-06	\$2,070,616,400	137,543,500	2,208,159,900
2006-07	\$2,039,392,300	152,620,000	2,192,012,300
2007-08 YTD	\$1,948,072,800	168,532,200	2,116,605,000

Major bond issuances include:  
 2001: Build Michigan III - \$308.2 million; 2004: Preserve First (first issuance) - \$185.7 million; 2005: State Trunkline Fund bonds to refund Federal notes for Build Michigan II - \$378.3 million and Refinancing bonds - \$223.0 million; 2006: Preserve First (second issuance) - \$244.5 million; and 2007: Jobs Today - \$630.0 million.

**Source:** Senate Fiscal Agency Appropriation Bill Files

### Projections

The Michigan Department of Transportation's (MDOT's) stated pavement condition goal is to have 90.0% of State Trunkline roads and bridges in "Good" condition. This goal was surpassed in 2007 when 92.0% of the Trunkline was rated "Good". However, as revenue continues to fall and construction costs continue to escalate, MDOT will not be able to maintain this level of repair. According to the Department, an additional \$460.0 million per year will be needed for road and bridge repair beginning in FY 2008-09 to maintain the Trunkline condition at 90.0% "Good".

As noted above, revenue has remained flat while costs have increased over the past 10 years. At this point, there is nothing to indicate that these trends will change. Figure 1 reflects estimated State revenue and expenditures (excluding Federal and local) for FY 2008-09 through FY 2012-13. Several assumptions were made to calculate these projections, including: 1) Motor fuel and vehicle registration tax rates remain the same; 2) construction/maintenance cost increases are calculated using a rate equal to the 2002-2006 average increase in the Producer Price Index for highway and street construction (6.3%); and 3) increases in transit costs are calculated at 4.0% (as directed by the Federal Transit Authority for planning purposes).

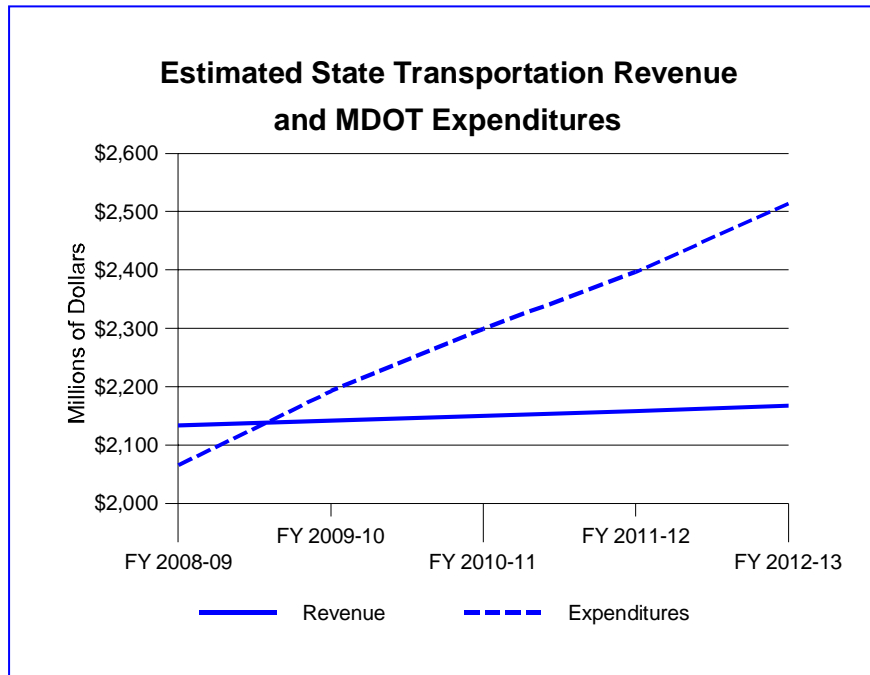
As can be seen clearly in the figure, expenditures could exceed revenue as early as FY 2009-10. With that said, appropriations that exceeded revenue to this extent would not be made under any circumstances. As more revenue is used for debt service, less is available for road and bridge repair and construction. State Trunkline Fund debt service payments are expected to peak in FY 2009-10, but there will not be a significant decrease in those obligations until FY 2019-20. Unless new sources of revenue are found, either the condition of the Trunkline will begin to deteriorate or more bond revenue will be needed, resulting in more debt service obligations and even less available funding for road and bridge work.





Under this scenario, construction/maintenance projects most likely will be delayed, transit grants could be reduced or eliminated, and funding to local units could be reduced.

**Figure 1**



**Notes:**

Estimates include only State funding sources and do not include any Federal or local revenue.

Debt service includes \$14.2 million per year associated with the Economic Stimulus bond package beginning in FY 2009-10.

Revenue estimates: 2008-09 - Consensus Revenue Estimating Conference, January 2008; Remainder – Senate Fiscal Agency, House Fiscal Agency, March 2008.

Salary & Wage increases based on Department of Management and Budget Economic Increase projections - March 2008.

Transit increases based on 4.0% recommended by Federal Transit Authority.

Construction/Maintenance increases based on 2002-2006 average increase in U.S. Dept. of Labor, Bureau of Labor Statistics, PPI-Hwy Construction (6.3%).

Again, the purpose of this article is not to advocate for either side in the discussion of a fuel tax increase, but merely to note that revenue and costs are on different tracks. Choices will have to be made to increase the fuel and registration taxes, find an alternative source of funding, and/or reduce expenditures in the areas of road construction/maintenance and transit.

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### **State Building Authority Bond Capacity** **By Bill Bowerman, Chief Analyst**

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#### **Introduction**

On January 14, 2008, the Governor transmitted to the Legislature a proposed Capital Outlay budget for fiscal year (FY) 2007-08. The Governor's recommendation included new planning and construction authorizations for projects financed by the State Building Authority (SBA). The recommendation has generated discussion regarding the method of selecting SBA-financed projects (projects included or not included by the Governor) and to what extent the statutory "bond cap" limits the total amount of SBA bonding. This article provides an overview of SBA bond capacity in relation to the Governor's recommendation and current priority requests from community colleges and universities.

#### **Bond Capacity**

Public Act 183 of 1964 created the SBA to acquire, construct, furnish, equip, and renovate buildings for the use of the State, including public universities and community colleges. Section 8(15) of the Act prohibits the SBA from having obligations outstanding at any one time in a principal amount totaling more than \$2.7 billion (MCL 830.418). The limitation does not include costs of issuance, debt reserve fund requirements, or bond refunding. Because the State is paying principal and interest from previous obligations at the same time new projects come on-line, it is difficult to predict when the State is close to the cap. The bond cap has been increased sporadically over time. Table 1 provides a history of adjustments to the bond cap.

<b>Table 1</b>	
<b>State Building Authority Bond Limits</b>	
Authorization	Amount (in millions)
Public Act 183 of 1964	\$400.0
Public Act 206 of 1985	\$775.0
Public Act 119 of 1987	\$1,350.0
Public Act 35 of 1993	\$2,000.0
Public Act 127 of 1997	\$2,700.0

#### **Calculating Current Bond Capacity**

The SBA section of the FY 2007-08 Governor's recommendation would commit the State to \$561.9 million in new bonding obligations. The recommendation included \$100.0 million for State agency projects, \$314.7 million for projects at 10 universities, and \$105.2 million for projects at 15 community colleges. The recommendation also included a new \$42.0 million Alternative/Renewable Energy Incentive for university and community college projects that meet certain criteria. At the time of the Governor's recommendation, the Department of Management and Budget (DMB) estimated the SBA bond capacity at \$643.5 million based on the assumptions contained in Table 2.



**Table 2**

<b>Bond Capacity Estimate from Governor's Recommendation</b>	
	Amount (in millions)
Bond Cap	\$2,700.0
Outstanding Obligations (Prior Bond Issues)	(1,811.7)
Current Commercial Paper Projects	(189.1)
Future Projects <sup>1)</sup>	(183.8)
Renewed Capacity	128.1
FY 2008-09 Bond Capacity	\$643.5
<sup>1)</sup> The above estimate excluded \$49.2 million of construction authorizations for State Facility Preservation Projects, based on the fact that they are not expected to come on-line until 2010.	

**Source:** State Building Authority

Based on the preceding calculations, the SBA offset all \$561.9 million in Governor recommended SBA projects, \$540.4 of which are planning authorizations, against the estimated \$643.5 million in bond capacity, stating that the Governor's recommendation was \$81.6 million under the bond cap.

While the Governor's recommendation includes proposed planning authorizations to determine remaining bond capacity, Section 242 of the Management and Budget Act (1984 PA 431) provides that appropriations made for studies and initial plans may not be considered a commitment on the part of the Legislature to appropriate funds for the completion of plans or construction of any project (MCL 18.1242).

The SBA's method of determining bond capacity is a conservative method to calculate capacity that avoids the possibility of exceeding the bond cap in future years. However, it limits the possibility of funding additional projects based on the current \$2.7 billion bond cap. Table 3 delineates the State's share of total project costs based on priority requests from institutions (the number-one priority project in the schools' five-year plans), compared with the Governor's recommendation. As shown, if the SBA methodology to calculate bond capacity is used, the Governor's recommendation is \$81.6 million below the bond cap and funding all priority requests would exceed the bond cap by \$225.7 million.



**Table 3**

<b>FY 2007-08 State Building Authority Projects</b>				
<b>Project</b>	<b>Priority Requests</b>		<b>Governor's Recommendation</b>	
	<b>Total Cost</b>	<b>State Share</b>	<b>Total Cost</b>	<b>State Share</b>
Central – Bio-Tech Building	\$75,000,000	\$40,000,000	\$0	\$0
Eastern – Pray Harold Addition & Modernization	57,000,000	40,000,000	57,000,000	40,000,000
Ferris State – Center for Collaborative Health Education	26,900,000	20,175,000	0	0
Grand Valley State – Learning & Technology Center and Remodeling	70,000,000	40,000,000	0	0
Lake Superior State – School of Business, Economics, and Legal Studies	14,750,000	11,062,500	14,750,000	11,062,500
Michigan State – Life Sciences Bio-Economy Expansion	146,300,000	40,000,000	146,300,000	40,000,000
Michigan Technological – Center for Integrated Learning/Information Tech.	59,000,000	40,000,000	59,000,000	40,000,000
Northern Michigan – Bio-mass Heat and Power Cogeneration Plant	55,000,000	40,000,000	55,000,000	40,000,000
Oakland – Human Health Building	61,748,100	40,000,000	0	0
Saginaw Valley State – Health Sciences Facility	28,000,000	21,000,000	28,000,000	21,000,000
Univ. of Michigan Ann Arbor – Biology Bldg.	175,000,000	40,000,000	175,000,000	40,000,000
Univ. of Michigan Dearborn – Science and Computer Center Renovations	36,000,000	27,000,000	36,000,000	27,000,000
Univ. of Michigan Flint – Murchie Science Laboratory Renovations	20,800,000	15,600,000	20,800,000	15,600,000
Wayne State – Multi-disciplinary Biomedical Research Building	180,000,000	40,000,000	180,000,000	40,000,000
Western – Sangren Hall Building Renovation	56,000,000	40,000,000	0	0
<b>Subtotal - Universities</b>	<b>\$1,061,498,100</b>	<b>\$494,837,500</b>	<b>\$771,850,000</b>	<b>\$314,662,500</b>
Alpena – Transportation Center Construction and Renovations	\$7,830,000	\$3,915,000	\$7,830,000	\$3,915,000
Bay de Noc – Nursing Laboratory and Lecture Hall Remodeling	1,000,000	500,000	1,000,000	500,000
Delta – Health and Wellness F-Wing Renovations	12,800,000	6,400,000	12,800,000	6,400,000
Glen Oaks – No Request Submitted	N/A	0	N/A	0
Gogebic – Special Maintenance	N/A	0	N/A	0
Grand Rapids – Lifelong Learning Center (New Construction)	33,500,000	16,750,000	0	0
Henry Ford – Science Building Improvements	15,000,000	7,500,000	15,000,000	7,500,000
Jackson – Whiting Hall Renovations	21,900,000	10,950,000	0	0
Kalamazoo Valley – Texas Twp Campus Expansion/Student Success Center	12,000,000	6,000,000	0	0
Kellogg – Classroom C Building Renovations	5,000,000	2,500,000	5,000,000	2,500,000
Kirtland – Campus Well Water System Upgrades	1,005,000	502,500	1,005,000	502,500
Lake Michigan – Emerging Technologies Initiative Renovations	21,735,000	10,867,500	21,735,000	10,867,500
Lansing – Science Classroom and Laboratory Expansion	47,300,000	23,650,000	0	0

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<b>FY 2007-08 State Building Authority Projects</b>				
<b>Project</b>	<b>Priority Requests</b>		<b>Governor's Recommendation</b>	
	<b>Total Cost</b>	<b>State Share</b>	<b>Total Cost</b>	<b>State Share</b>
Macomb County – Health Science/Technology Bldg. Phase II	14,500,000	7,250,000	14,500,000	7,250,000
Mid Michigan – Mt. Pleasant Campus Unification	27,121,000	13,560,500	0	0
Monroe – Classroom Technology Center Construction	17,000,000	8,500,000	17,000,000	8,500,000
Montcalm – MTEC Expansion for Job Training	6,000,000	3,000,000	6,000,000	3,000,000
Mott – Mott Library Renovation	8,156,000	4,078,000	0	0
Muskegon – Student Services Center	5,000,000	2,500,000	0	0
North Central – University & Science Center Construction & Renovation	16,323,700	8,161,900	16,323,700	8,161,900
Northwestern – Student Learning Center	13,500,000	6,750,000	0	0
Oakland – Building A Additions/Renovations	32,065,000	16,032,500	32,065,000	16,032,500
St. Clair County – Center for Health and Human Services	7,000,000	3,500,000	0	0
Schoolcraft – Public Safety/Homeland Security Classroom Building	15,000,000	7,500,000	15,000,000	7,500,000
Southwestern Michigan – Technology Building Renovation & Expansion	3,200,000	1,600,000	3,200,000	1,600,000
Washtenaw – Skilled Trades Training Complex	16,000,000	8,000,000	0	0
Wayne County – Northwest Campus Replacement Construction	42,000,000	21,000,000	42,000,000	21,000,000
West Shore – Arts and Sciences Center/Remodeling & Additions	6,900,000	3,450,000	0	0
<b>Subtotal – Community Colleges</b>	<b>\$408,835,700</b>	<b>\$204,417,900</b>	<b>\$210,458,700</b>	<b>\$105,229,400</b>
DMB: Alternative/Renewable Energy Incentive:	\$139,851,100	\$69,925,500	\$83,978,400	\$41,989,200
Department of History, Arts, and Libraries - Warehouse Facility Acquisition	9,690,000	9,690,000	9,690,000	9,690,000
DMB - State Facility Preservation Projects - Phase III	70,310,000	70,310,000	70,310,000	70,310,000
DNR - Forest Fire Experiment Station Replacement	2,100,000	2,100,000	2,100,000	2,100,000
DNR - State Park Improvement Projects	17,900,000	17,900,000	17,900,000	17,900,000
<b>Subtotal – State Agencies</b>	<b>\$100,000,000</b>	<b>\$100,000,000</b>	<b>\$100,000,000</b>	<b>\$100,000,000</b>
<b>TOTAL SBA PROJECTS</b>	<b>\$1,710,184,900</b>	<b>\$869,180,900</b>	<b>\$1,166,287,100</b>	<b>\$561,881,100</b>
AVAILABLE BOND CAPACITY (FY 2008-09): (Over)/Under Bond Cap:		\$643,500,000 (\$225,680,900)		\$643,500,000 \$81,618,900
<b>Notes:</b> The State share for university projects is capped at 75.0% - limited to a maximum State share of \$40.0 million. The State share for community college projects is 50.0%. University and Community College priority requests are based on five-year plans submitted for FY 2008-09, as of 4/23/08.				

**Source:** Governor's FY 2007-08 Recommendations and Institution Five-year Plans



## **Conclusion**

As noted above, Section 8(15) of the SBA Act provides that the SBA may not have obligations outstanding at any one time in a principal amount totaling more than \$2.7 billion. While using all planning authorizations to calculate how close the State is to the bond cap prevents the potential of hitting the cap in future years, it also provides additional limits on funding current capital outlay needs. Taking full advantage of current bond capacity requires estimating how long authorized projects will be in the planning phase and how long it will take institutions to spend the amount of their required match. The SBA states that annual renewed bond capacity averages approximately \$125.0 million. Based on the cost estimate of requested projects, it is possible that current bond capacity would be sufficient to authorize all of the requested planning projects. Using a projected time line of project completion to calculate bond capacity does have a down side. If authorized projects came on-line earlier than projected, the bond cap would limit the ability of the State to provide its share of project costs. However, if that were to happen, the State has the ability to enact legislation increasing the bond cap. Funding all priority requests also would result in additional State debt. The difference between the Governor's recommendation and funding all priority requests is \$307.3 million. Annual payments to retire that additional debt would be approximately \$30.7 million for 15 to 17 years.



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### **Renewable Energy Development in Michigan**

**By Lasha Chkhartishvili, Legislative Education and Practice Program (LEAP) Fellow  
and Senate Fiscal Agency Intern, Georgia**

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The 21<sup>st</sup> century has brought new challenges and modern approaches related to the consumption and supply of energy. Day by day, the world is growing in population and industry, and the demand for energy is increasing rapidly, and will continue to increase. Accordingly, one of the new challenges the world now faces is energy shortage, which is actually present today in some parts of the world and is becoming a future concern for developed and industrialized countries like the United States, Germany, France, Japan, Denmark, China, Russia, India, and Brazil.

New challenges bring new approaches and new possible solutions to the problems. With the booming technological progress in the world, it is becoming more and more realistic to use new methods to generate energy that were not imagined several years ago. Thus, one of the modern solutions to the problem of energy shortage today is renewable energy.

Renewable energy commonly includes solar, hydro, wind, and biomass energies. In Denmark and Germany, for example, wind energy has become one of the main sources of energy generation and the wind farm industry of those countries is already world famous. Also, in the U.S., there are several good examples of renewable energy generation, such as the solar energy plants in California.

After having introduced the broader view, this article will discuss Michigan's role in the future of renewable energy. According to the 21st Century Energy Plan developed by the Public Service Commission, a significant amount of the power generated in Michigan comes from coal, natural gas, and nuclear energy, while only 3.0% comes from renewable resources. Renewable energy advocates assert that a more diverse mix of fuels, particularly those indigenous to Michigan, would reduce the overall cost of electricity and provide some protection against price fluctuations. In assessing the renewable energy potential of Michigan, wind energy is one of the directions the State could consider. As for solar energy, because the State does not get an abundance of sunny days during the year, it would not be as efficient as wind. Also, not only in Michigan, but in every state where there are big farms, biomass energy plants could be constructed at or close to the farms.

Although renewable energy generation is promising, it comes with very high costs of construction and use. In particular, wind mills with capacity of more than 40 megawatts cost several million dollars. Today, two of the big producers of wind mills and their equipment are Denmark and Germany. It would be cost-prohibitive, however, to buy the material and import it into this country, and transportation also must be taken into consideration. Nevertheless, Michigan could learn from the experience of the countries in which this business has been operating for several years and then build similar factories in the State, or use existing facilities. The State has a great history of car production, and the empty or underused car factories could become the manufacturers of wind mill blades and of other necessary materials needed for them, such as motor turbines and steel covers for the mills.

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There are several Senate and House bills supporting renewable energy development in Michigan, including Senate Bills 213, 219, 385, and 1000, and House Bills 4319, 4539, and 4562. The issue of transmission and how it will be regulated also will need to be taken into consideration. Transmission refers to the way electricity generated from renewable energy sources reaches the end consumer. Legislative action could help to guarantee that the energy generated from a renewable source, including wind or sun, will be sold at a specific rate to the distributor. Someone investing billions of dollars in renewable energy production should not later face the problem of having to build new transmission lines. The construction of new transmission lines involves extremely high costs, which could discourage any construction of renewable energy plants today regardless of how beneficial they would be for the future.

It is very clear, especially these days, that virtually everything comes down to money and economics. It is one thing to say what needs to be achieved, and another thing actually to achieve it. Accordingly, although the development of renewable energy is or should be one of the first priorities of the Federal government, in order for it to experience rapid development and fast growth, the Legislature, not only of Michigan but of any other state that decides to promote renewable energy development, arguably should come up with some kind of support to guarantee the investors in renewable energy that all of their energy generated will have fixed or specific value no matter what, and that they will not have to build additional large-scale transmission lines. In other words, the sale of electricity generated will be guaranteed. This type of legislation could motivate the private sector, where a lot of money is available, to invest in renewable energy development.

There are many other factors related to motivation and promoting investment in renewable energy development, which has a sure future, but mentioning all of them would require another article. This article has highlighted some of the major issues, one of which is regulating the transmission of renewable energy.

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### **21<sup>st</sup> Century Jobs Trust Fund Programs**

**By Elizabeth Pratt, Fiscal Analyst, and Maria Tyszkiewicz, Fiscal Analyst**

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The appropriations for the 21<sup>st</sup> Century Jobs Trust Fund programs have been adjusted several times since the creation of the program in November 2005. This article reviews the changes to the original appropriation, the allocations of the fiscal year (FY) 2007-08 funding, and the Governor's recommendation for FY 2008-09.

#### **Background**

The 21<sup>st</sup> Century Jobs Trust Fund program was created by Public Act (P.A.) 225 of 2005 and related legislation. Public Act 225 of 2005 and P.A. 153 of 2006 made a total of \$400.0 million in appropriations funded by the proceeds of securitization of a portion of the State's tobacco settlement revenue. Public Act 232 of 2005 required the appropriation of \$75.0 million from tobacco settlement revenue to the 21<sup>st</sup> Century Jobs Trust Fund each year from FY 2007-08 to FY 2014-15, providing an additional \$600.0 over eight years.

The original \$400.0 million appropriation consisted of \$115.5 million in earmarks for specific projects and \$284.5 million for allocation by the Michigan Strategic Fund (MSF) Board in accordance with statutory limitations. These appropriations were generally for multiyear projects and available funds continue as statutory work projects. The Senate Fiscal Agency Issue Paper [21<sup>st</sup> Century Jobs Trust Fund Programs](#) from February 2007 outlined the parameters of the programs, the various earmarks, and the status of the implementation of the programs at that time. Since then, several adjustments have been made to the program by Executive Order, legislation, and actions of the MSF Board and the Strategic Economic Investment and Commercialization (SEIC) Board.

#### **FY 2006-07 Appropriation Reductions**

In order to balance the FY 2006-07 budget, funding for the 21<sup>st</sup> Century Jobs Trust Fund was reduced in two separate actions by a total of \$50.0 million, from \$400.0 million to \$350.0 million. The first revision was included in Executive Order 2007-3, which reduced the statutory earmark for the Michigan Forest Finance Authority from \$26.0 million to \$6.0 million, for savings of \$20.0 million. An additional unspecified \$30.0 million reduction in the program was agreed to as part of the Leadership Target Agreement on the FY 2006-07 budget. To meet the \$30.0 million reduction, the MSF Board chose not to fund the loan guarantee program called the Choose Michigan Fund, which had been approved by the Board but not yet implemented. The Board also eliminated funding of the statutory earmark for the \$2.0 million University Technology Transfer Program. Public Act 50 of 2007 completed the appropriation reductions by transferring \$50.0 million from the 21<sup>st</sup> Century Jobs Trust Fund to the General Fund.

#### **Allocation of the Original Appropriation**

The MSF Board allocated its discretionary funds among the programs permitted by statute: the Investment Program, Loan Enhancement Program, and Competitive Edge Technology Grant and Loan Program operated by the SEIC Board. A total of \$114.0 million was allocated for the Investment Program, which is conducted by Credit Suisse. The MSF Board made two separate allocations to the SEIC Board, the first in December 2005 for \$100.0 million, and the second in September 2006 for \$35.0 million. These funds were awarded in accordance with the statutory program for Competitive Edge Technology Grants and Loans for projects in four categories: Advanced Automotive,

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Manufacturing, and Materials Technology; Alternative Energy; Homeland Security and Defense; and Life Sciences. Of these funds, however, \$8.7 million was either returned or declined by awardees as of May 2007.

Early in 2007, the Pfizer Corporation announced that it was relocating some operations out of the State and would close its Ann Arbor research facilities. As a result, the MSF Board and the SEIC Board determined that a portion of the funds returned to the SEIC Board would be used for various programs to retain the Pfizer assets and employees in Michigan. The MSF Board approved a total of \$12.0 million for three projects: approximately \$8.0 million for a loan fund to assist former Pfizer employees in starting new businesses, \$3.4 million for a grant to Lakeshore Advantage to use a donated Pfizer building for life science technology projects in conjunction with Michigan State University, and \$550,000 to Ann Arbor SPARK which will operate the Michigan Innovation Equipment Depot to receive and distribute lab equipment donated by Pfizer. As of March 12, 2008, the SEIC Board retained a balance of \$2.8 million from awards returned in prior years under the Competitive Edge Technology Grants and Loans program. Under Section 1024(2) of P.A. 127 of 2007, awards returned in FY 2007-08 are required to be allocated to the Small Business Technology Development Centers to fund the Federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) matching grant program. To date, \$4,975,000 has been returned to the SEIC Board in FY 2007-08. The Michigan Economic Development Corporation (MEDC) (which staffs the MSF Board) had indicated that this level of funding is more than is needed for this program. A supplemental appropriation bill, House Bill 5344, would repeal this requirement.

The MSF Board also allocated \$30.8 million for a loan enhancement program known as the Choose Michigan Fund, but this program was not implemented due to the budget reductions described above.

The uses of the original 21<sup>st</sup> Century Jobs Trust Fund appropriations are summarized in Table 1.

<b>Table 1</b> <b>21<sup>st</sup> Century Jobs Trust Fund - Use of Original Appropriations</b> <b>(Millions of Dollars)</b>	
Original Appropriation, P.A. 225 of 2005 .....	\$400.0
Appropriation Reductions, E.O. 2007-3 and P.A. 50 of 2007 .....	(50.0)
Remaining Appropriation .....	\$350.0
<b>Allocation of Funds</b>	
Investment Program .....	\$114.0
Competitive Edge Technology Grants and Loans .....	121.3
Administration .....	16.0
Business Development and Marketing .....	20.0
Other Earmarks <sup>1)</sup> .....	57.5
Life Science Pipeline .....	1.4
Pfizer Asset Retention Projects .....	12.0
SEIC Board Balance .....	7.8
<b>Total .....</b>	<b>\$350.0</b>
<sup>1)</sup> These consist of the following: Michigan Forest Finance Authority, \$6.0 million; Defense Contract Coordination Center, \$10.0 million; Van Andel Research Institute, \$4.0 million; Automotive Acceleration, \$6.0 million; Michigan Film Office, \$2.0 million; Michigan Promotion Program, \$15.0 million; Agriculture Development Fund, \$10.0 million; Small Business Capital Access Program, \$3.5 million; and Wet Lab Redevelopment, \$1.0 million.	

**Source:** Michigan Economic Development Corporation and Senate Fiscal Agency



## **FY 2007-08 Appropriation**

Public Act 232 of 2005 required the deposit of \$75.0 million annually from FY 2007-08 to FY 2014-15 from Tobacco Settlement Revenue into the 21<sup>st</sup> Century Jobs Trust Fund. The FY 2007-08 budget for the Michigan Strategic Fund (P.A. 127 of 2007) reflected this requirement and appropriated \$75.0 million from the 21<sup>st</sup> Century Jobs Trust Fund to the MSF for the Jobs for Michigan Investment Program: 21<sup>st</sup> Century Jobs Fund.

Several earmarks were placed on this annual appropriation. The MSF Act required allocation of \$30.0 million to the SEIC Board for Competitive Edge Technology Grants and Loans. At its April 2008 meeting the SEIC Board approved a request for proposals for the \$30.0 million in FY 2007-08. These funds will be used for a Commercialization Business Plan competition for for-profit companies "...to create or expand viable, sustainable Michigan business opportunities in competitive edge technologies with near term job creation - five (5) years or less" (MEDC RFP-DOC-1343). Applications are due June 4, 2008, followed by the peer review process, with awards expected on September 10, 2008.

The MSF Act also permitted the use of up to 4.0% or \$3.0 million for administration and up to 5.0% or \$3.75 million for business development and marketing. A boilerplate allocation in Section 1024 of the budget bill granted \$1.4 million to the Small Business Technical Development Centers for the Federal Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) matching grant program. These earmarks total \$38.1 million in FY 2007-08. The remaining balance of \$36.9 million in FY 2007-08 is available to the MSF Board to allocate based on the programs and restrictions established in the authorizing legislation.

The MSF Board has allocated a portion of the balance. The Board authorized \$18.75 million for the Choose Michigan Fund, the loan enhancement program that it had reduced previously due to the FY 2006-07 budget reductions. The Choose Michigan Fund would be used to provide low-cost loans for job creation projects. The loans would be awarded to companies that qualify for Michigan Economic Growth Authority job creation credits, making the cash value of the anticipated future credits available to a company to provide cash at the beginning of a project. Public Act 80 of 2008, part of the film industry package, amended the Michigan Strategic Fund Act to require the MSF to create a Michigan Film and Digital Media Investment Loan Program as part of the loan enhancement program.

The MSF Board has not yet allocated the remaining \$18.1 million in FY 2007-08. Staff from the Michigan Economic Development Corporation have proposed that the funds be used for the Centers of Excellence program. The proposed program would provide grants to companies that collaborate with universities to commercialize alternative energy technology. Statutory changes would be needed to authorize this program. To date, the MSF Board has not acted on this proposal.

The uses of the FY 2007-08 appropriation from the 21<sup>st</sup> Century Jobs Trust Fund are shown in Table 2.



**Table 2**

<b>21<sup>st</sup> Century Jobs Trust Fund Use of FY 2007-08 Appropriations (Millions of Dollars)</b>	
	<b>FY 2007-08</b>
<b>FY 2007-08 Appropriation - P.A. 127 of 2007 .....</b>	<b>\$75.0</b>
<b>Uses of Appropriation</b>	
<u>Statutory Earmarks - P.A. 225 of 2005</u>	
Competitive Edge Technology Grants and Loans .....	30.0
Administration.....	3.0
Business Development and Marketing .....	3.75
<u>Boilerplate Earmark - PA 127 of 2007</u>	
Small Business Tech. Development Centers for SBIR/STTR Matching Grant Program	1.4
<u>Allocation by MSF Board</u>	
Loan Enhancement Program - Choose Michigan Fund.....	18.75
<b>Total Allocated Funds .....</b>	<b>\$56.9</b>
<b>Unallocated Balance .....</b>	<b>\$18.1</b>

**Source:** Michigan Economic Development Corporation and Senate Fiscal Agency

In addition, Public Acts 98 through 102 of 2008 were enacted in April to provide additional resources for tourism promotion and business marketing. Public Act 98 of 2008 appropriated supplemental funding of \$60.0 million from the General Fund for the Michigan Promotion Program and business marketing from FY 2007-08 through FY 2009-10. This new revenue is generated from a combination of restructuring a portion of the original Tobacco Settlement Finance Authority bonds and extending the term on the original bonds. Of this \$60.0 million, \$50.0 million was appropriated to the MSF for FY 2007-08 and FY 2008-09. The remaining \$10.0 million is intended for appropriation in FY 2009-10. The Act requires that the funds be used for tourism promotion and business marketing, with not more than one quarter or \$12.5 million being eligible for business marketing.

On April 23, 2008, the MSF Board passed two resolutions to amend the existing Business Marketing Campaign and the Tourism Promotion Campaign contracts to extend the duration of the existing contracts through FY 2008-09. The Board allocated \$37.5 million for tourism promotion spending, distributing \$10.0 million in FY 2007-08 and \$27.5 million in FY 2008-09. The Board also authorized \$12.5 million for business marketing, allocating \$5.0 million in FY 2007-08 and \$7.5 million in FY 2008-09.

#### **FY 2008-09 Proposed Appropriation**

The Governor's recommendation for the MSF budget for FY 2008-09 included the appropriation of \$75.0 million from the 21<sup>st</sup> Century Jobs Trust Fund. This funding would be allocated by the MSF Board according to the MSF Act provisions. Under current law, several statutory earmarks will apply in FY 2008-09. These consist of the requirement to allocate \$30.0 million to the SEIC Board for Competitive Edge Technology Grants and Loans, and the allocation of up to 4.0% or \$3.0 million for administration and up to 5.0% or \$3.75 million for business development and marketing. Under the Governor's proposal, the remaining \$38.25 million would be available to the MSF Board to distribute in accordance with the statutory requirements.